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AGRICULTURE'S STAKE IN LOWERING WORLD TRADE BARRIERS

Agriculture after the war will need a high level of international trade. It will need such trade primarily as a guaranty of world security and peace, the foundation of all welfare; and secondly, as the basis for profitable production and marketing. The alternative is relative isolation, which involves enforced uneconomic changes in farm and factory systems. If we want to keep our comparative advantages in various lines of production, and at the same time to let other countries keep theirs, we must have expanding international trade, with imports as well as exports increased.

It has long been known that trade and peace are interdependent. The interwar years showed the connection in reverse. As political insecurity increased, trade among the nations declined. These developments were cause and effect reciprocally. On the one hand, political insecurity damaged world trade by the incentive it gave some countries to strive for self-sufficiency in foods, clothing, and other basic goods. On the other hand, self-sufficiency programs added to the prevailing political tension, through the additional hardships, economic conflict, and suspicion they engendered. In turning its back upon trade, the world turned its face toward war. Now, it must face about, and adopt programs that will promote trade and peace together.

Farmers everywhere, and especially the farmers of the United States, have a stake in this. Farmers, it should be borne in mind, have a majority interest in peace from a world standpoint, since farm people comprise two out of every three people on earth. They want peace for the same reason that other rational people want it; namely, as an assurance that they can get on with their proper business in life. Peace means larger outlets for farm products, ultimately if not immediately. Moreover, it means safer outlets, where buying power will rest on constructive and not destructive activity. In exchange for this most farmers would gladly trade war booms. Peace coupled with easy, abundant, and reciprocal world trade promises a better assurance of farm prosperity than can be obtained in any other way. Specifically, it means readier access by farmers everywhere both to markets and to necessary sources of supplies.

From a purely business standpoint, agriculture will need foreign trade because it will be producing more of some products than it can sell to United States consumers at a remunerative price. It has an interest also in exports of factory products; such exports provide employment here and thus broaden the domestic market for agricultural commodities. Though industrial exports dollar for dollar result in less increase of farm markets than do agricultural exports, the sale of industrial products in foreign markets is of importance to farmers and will be of increasing importance hereafter. In addition, agriculture has an interest in imports. Healthy permanent foreign trade is necessarily a two-way proposition in the sense that it involves

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Adapted by A. P. Chew from a report entitled "A Post-War Foreign Trade Program for United States Agriculture," which was issued in April 1945 by a Work Group of the Department's Interbureau Committee on Post-War Programs.

both exports and imports. Besides satisfying wants in the United States, those of farmers as well as of nonfarmers, imports provide dollars that foreigners can use in making purchases here.

Under the conditions likely to exist in the future, we must have large imports if we are to have large exports. Other ways whereby foreigners may obtain dollar exchange, such as by doing shipping and freight services for us, by serving American tourists abroad, and by obtaining loans in the United States, are not likely to be sufficient, except perhaps temporarily in a transition period. Normally our imports are the chief source of dollar exchange for foreigners.

It is not desirable or necessary that the imports should be seriously competitive. They may consist largely of products, both industrial and agricultural, which the United States cannot itself produce or cannot produce efficiently and economically in sufficient quantities. In periods of active business, the domestic markets can absorb large imports as well as a large domestic production.

Among nonagricultural items in which farmers have an interest are certain fertilizers and insecticides, wood pulp and wood products, tin, nickel, manganese, chrome, tungsten, other metals, and many handicraft articles. Farmers as well as nonfarmers buy many agricultural products not produced in the United States or not produced here in sufficient quantities. In the first group are complementary imports such as coffee, tea, cocoa, bananas, and certain insecticides; the other or supplementary group includes sugar, wool, hides, and skins,

Manifestly, however, the quantity of the supplementary imports that can enter the country without unduly injuring our agriculture depends on the level of domestic consumption. It rises in periods of prosperity and declines in depressions.

It should be remembered, too, that imports are essential not only to our international trade but to our standard of living in both town and country. This situation has been brought home to all of us during the war, when imports of many items have been limited by the lack of shipping.

It has long been recognized that international trade helps to increase the world's production and wealth. With different countries specializing in the lines in which they have an advantage, and exchanging their products freely, world output is greater and world production costs are lower than would otherwise be possible. Yet many nations, including the United States, have followed various degrees of protectionism. They have sought in this way to strengthen defenses, to benefit certain groups, to overcome advantages possessed by foreigners, and to provide more jobs in particular industries. Frequently the employment motive has been decisive. It has seemed more important to keep workers busy, even at the cost of relative inefficiency, than to have more goods at lower prices.

But the seeming benefits include draw-backs. Trade restriction policies turn friends into potential enemies. Moreover, on a world scale trade restriction does not provide jobs but destroys jobs and lowers real wages. Gain in employment from curtailment of imports tends to be offset by less in employment from shrinkage of exports. Extremely high trade barriers destroy even local, not to speak of national, benefits. On balance they do not help

even special groups. Up to World War I, nations could trade with one another liberally, notwithstanding the previous growth of protectionism. After World War I they could not. Commerce withered in a stranglehold of tariffs, quotas, import controls, subsidies, and monopolies, and all agriculture and business suffered. The task now is to prune down the growth, so that world trade may recover and give the nations a chance to live without making war an instrument of trade policy.

In between the wars United States farms suffered more than United States factories from the drift toward economic nationalism. Agricultural exports declined in total and became a smaller proportion of the value of our total exports; they felt the impact of Europe's self-sufficiency policies, of expanded farm production in exporting countries, and in the 1930's of our own price-supporting measures, which were part of the trade-restriction mechanism. Exports of nonagricultural products increased, except in the worst depression years, largely as a result of technical progress in mass-production industries--though not to the extent that they would have increased under freer trade conditions. Nevertheless, American agriculture continued to be heavily if decreasingly dependent on export trade. Even in the late 1930's we exported about 40 percent of our cotton, about one-third of our tobacco, nearly one-tenth of our wheat, and considerable quantities of rice, lard, and fruits. In the war years, lend-lease took the place of commercial exports, and total agricultural exports jumped. In addition, the United States sent farm products abroad for the use of the Army and Navy and for relief purposes. But wartime procedure does not solve the post-war problem.

Our expanded farm production will tend to remain high, and in important products will exceed the domestic demand at remunerative prices, even with employment and business active. We will have to maintain a high rate of consumption at home and abroad or else we shall have to reduce our farm production. Export outlets are essential. Moreover, the export trade will have to be built up again from practically zero; under war conditions commercial farm exports are down to a very low level. Temporarily, in addition to revived exportation of the staples, we may want to export certain things, such as dairy products and eggs, which previously we did not send abroad to any great extent. Farm production capacity has expanded, however, in other agricultural exporting countries, and also in England, an agricultural importing country. Eventually, though not perhaps in the immediate post-war years, the competition for world markets will be sharp. Vigorous world-wide expansion in economic activity would balance this growth in farm production capacity, except in a few important commodities such as wheat, rice, cotton, wool, and fats and oils. Getting such expansion is part of the world-trade problem.

Preferably, agriculture's problem should be solved by measures to maintain and enlarge the world demand. The other way of getting supply and demand into balance, namely the way of downward crop adjustments, is not satisfactory. In the first place, agriculture cannot readily adjust its production downward; it has too high a proportion of fixed costs, too few crops among which to choose in each locality, and frequently considerable overmanning of the land. Secondly, crop curtailment is a scarcity program, which conflicts with basic human needs. In serious crises resort to curtailment may be unavoidable. But the United Nations are trying to develop means of sustaining and raising the level of economic activity, so that consumption will increase and make general crop curtailment either needless or merely occasional, moderate, and temporary. Here is the master key to greater and better world trade.

Many of the steps taken have been much in the news. The United Nations have held conferences on food and agriculture, on money and finance, and on security. They have created a food and agriculture organization. They have discussed other methods of stimulating world production and consumption, notably the industrialization of undeveloped countries. Negotiations for post-war action under reciprocal trade agreements look toward increased economic activity. Foreign investment programs are being shaped to aid economic progress in many countries, notably in France, in other liberated European countries, in China, India, Australia, in the Near and Middle East, and in Latin America. The Soviet Union expects to accelerate its industrial progress with financial and technical help from the United States and other countries. In all these ways of dealing with the demand problem American farmers have a vital though often underrated interest. In proportion, as these plans succeed, farmers will be able to continue producing at high levels. Should the plans fail, farmers may have to limit their production.

Besides the important Dumbarton Oaks, Bretton Woods, and Hot Springs proposals, other matters of great importance are under discussion with regard to the role of governments in international trade. With progress expected in laying the broad political foundations of world prosperity, attention goes to the details of tariff, price-support, quota, subsidy, financial, and other trade policies. In these our farmers have a two-fold interest: First, from standpoint of the stimulus or resistance such policies may offer to world trade; and, secondly, with regard to the repercussions they will have on domestic farm programs. Our price supports, for example, do not fully square with world-trade needs, since they sometimes require the use of export subsidies. As a means of fitting them into the world-trade program, we may need to enter into broad international agreements. Strictly one-sided or unilateral action is apt to be self-defeating. In short, efforts to increase the world demand for agricultural products set a problem primarily in the removal of restraints on trade. To these restraints we have ourselves contributed, through farm as well as nonfarm policies. Hence we share the responsibility for relaxing them wherever this is feasible.

It is not with respect solely to farm products that governments have interfered with world trade. In recent years, however, government action with regard to agricultural products has been conspicuous. Action by governments has affected international trade in farm products tremendously since the beginning of World War I. Extended and increased in the interwar period, and still more extended and increased during World War II, such action exists in practically all countries and applies to practically all agricultural commodities. Almost inevitably it will continue to some extent, not only because post-war surplus situations may develop, but because many important governments feel themselves committed. The world cannot immediately go back to nonintervention, but it can modify the trade controls. In fact it must do so, on pain of relapsing into economic stagnation.

What some of the changes should be can be inferred from a glance at what governments have recently done with regard to agriculture. Most of the growth of impediments to world trade in agricultural products, it should be borne in mind, has come since World War I. Previously, trade barriers were relatively low; commodities crossed them readily. Governments assisted agriculture chiefly with aids to production and marketing, and held to very moderate import duties. Occasionally they used export subsidies. Toward the end of the nineteenth century, for example, export subsidies on sugar beets in continental Europe provoked controversy, and led to the International Sugar

Convention of 1902, which abolished these subsidies and placed a ceiling on sugar tariff rates. Agricultural controls were extensive during World War I; but after the war most of them were removed. It was in the 1920's and 1930's that new and far-reaching restrictions came into force. In many countries, particularly in Europe, their purpose was to maintain or expand domestic agricultural production against the risk of war, without regard to the effect on agriculture elsewhere.

These measures aggravated the world disparity between production and demand. Countries dependent on imports boosted their food production; yet the exporting countries did not materially reduce theirs; in many instances they increased it. Briefly, commodity circulation languished. With export outlets narrowed for the surpluses, while importing countries tightened their belts in a drive for self-sufficiency, world trade in agricultural products dwindled. Prohibitive tariffs, quotas, embargoes, currency manipulations, price controls, and self-sufficiency programs almost wrecked the basis on which it rested. Forced to store their surpluses, and to cope meanwhile with continued high production, the exporting countries had to use income and price supports, which in turn became impediments to world trade. With domestic prices held above world prices, surpluses moved only under subsidy, and only then against mounting foreign opposition.

Conflict of national objectives led to conflict of national policies. Exporting countries used currency manipulations and export subsidies. In many instances they made deals with importing countries whereby other importing countries found themselves shut out. As protection against dumping, or for other reasons, the importing countries often applied countervailing measures; they used import quotas, embargoes, preferences, high tariffs, and special exchange controls. Certain importing countries paid their own farmers the difference between the world market price and a goal price on specified commodities. This was a stimulus to their domestic production.

In some instances government monopolies interfered with international commerce, as for example the Soviet Union's foreign trade controls. Sometimes these state trading programs had political objectives; in the Axis countries, for example, the purpose was military. The programs served also, however, to support domestic farm prices, sometimes to an extent that involved export dumping. The upshot was more and more self-containment, the exact opposite of international trade. Briefly, the nations pulled in their trade and pushed out their guns.

In the World War II years, government intervention in agriculture, though greater than in the pre-war period, has had different purposes. Primarily it has aimed at getting increased production, rather than higher prices; in fact, it has usually included efforts to keep prices stable. Nevertheless, it has involved an expanded use of government trading monopolies, and has embraced various stages in the distribution as well as the production of the important agricultural commodities. Moreover, many governments have promised to support post-war agricultural prices or incomes; they recognize the possibility of new world surpluses. In the United States, for example, Congress has made agricultural price supports mandatory on numerous products at 90 percent of parity or more for 2 years after the hostilities shall have been declared over. The United Kingdom has announced it will guarantee prices at the current level up to the summer of 1948 on livestock products. Canada has established a board with general authority to support prices in the post-war transition period. Certain government

trading monopolies may be continued into the post-war years. Obviously, the wartime controls if continued into the post-war years will affect international trade about as much as if not more than did the pre-war controls.

How and to what extent they should be modified is the problem. Widely advocated is the elimination or reduction of tariffs, quotas, preferential systems, and other forms of government intervention in international trade. Such action in private-enterprise countries would have to be coordinated with action in countries that maintain foreign-trade monopolies, either completely as in the Soviet Union or confined to certain commodities as in a number of other countries. It would be difficult but not impossible to reconcile the policies. Lower tariffs, quotas, and preference barriers would speedily promote world trade in articles not in world surplus, and would facilitate international trading even in world-surplus commodities. As will be noticed in a moment, certain additional steps might be necessary to cope with world surplus situations in agricultural products; but these steps would be complementary to the general relaxation of trade barriers.

Theoretically, the movement to remove obstacles and furnish stimulus to world trade may be unilateral, bilateral, or multilateral. It may be started by one country independently, by two countries in concert, or by agreements open to all countries. Unilateral action will not appeal to many governments, except possibly in the wrong direction; most governments are more likely to raise than to lower their tariffs and other impediments to world trade when surplus situations develop. Certainly, few countries would be willing to reduce their tariffs, if they had no assurance of similar action by other countries.

As for bilateral action, whereby two countries make reciprocal concessions, the benefit for world trade depends on whether or not the agreement observes the most-favored nation principle. If the parties grant the same tariff reductions to all countries, the deal helps international trade; otherwise, it does not. This is the principle followed in the United States Reciprocal Trade Agreements Program; it can be applied more widely with advantage. But it requires much time to produce significant results and does not meet the need for a quick and comprehensive reduction of trade barriers.

Multilateral agreements, for the reduction of trade barriers simultaneously in all the countries that are willing to participate, can accomplish more; but these likewise will take time to form and fructify. Getting many countries to agree on trade policies is obviously very difficult. Nevertheless, much responsible opinion favors a multilateral convention for the reduction of trade barriers. Adapted primarily to the institutions of private-enterprise countries, the convention would have to include an arrangement for dealings with the Soviet Union and with any other state-control countries.

Normally, of course, world trade is spontaneously multilateral, as are the associated financial and currency operations; but the world has moved away from this normal system and cannot return to it in any significant degree except by international agreement. The chief argument for a multilateral agreement is the magnitude of the probable results. Clearly, a general program for lowering trade barriers would bring about far more general trade expansion than would many bilateral arrangements. In fact the bilateral agreement, if it is of the exclusive or discriminatory type, may

hamper the broader development. Under a multilateral program, which would outlaw restrictive operations by private monopolies and cartels and would put definite limitations on government intervention in all participating countries, world trade in products not in surplus would be stimulated greatly.

It has been mentioned that world trade policy might have to distinguish between commodities the production of which responds well to price changes, and commodities the production of which does not respond well. In the first category are many industrial products and nonagricultural raw materials. Conspicuously the second category includes important agricultural products. Lessened government intervention would promote desirable readjustments more effectively with regard to the first than with regard to the second class of products. For example, even with vigorous and expanding economic activity some products such as wheat, cotton, and fats and oils might be in world surplus under certain conditions. In a depression period the surpluses could be huge. Lowering of trade barriers would help to liquidate these surpluses, through the extent to which it facilitated broader distribution and consumption. Nevertheless, the disparity between demand and supply could persist in a considerable measure, and along with it the difficulties of the farmers. The problem might necessitate governmental action beyond the lowering of trade barriers. Undoubtedly, for example, the United States and other important producing countries would continue their programs for assisting farmers, and to the extent that these programs included price supports they would involve government intervention in world trade.

But world-wide crop curtailment is not the only recourse. Multilateral intergovernmental commodity arrangements could be developed with numerous objectives. Such arrangements would not conflict with the general world-trade program; they would simply provide additional means for handling surplus situations. They would bring together, for a variety of purposes, all countries with a selling or buying interest in the surplus commodities. Annually, or as often as might be necessary, the representatives of these countries would agree on the details of the commodity agreements, and would draw up a cooperative action program which primarily would emphasize the expansion of consumption, particularly among low-income groups. It would invoke the limitation of output only to the extent absolutely necessary.

Even in our own rich country many people suffer from malnutrition; in poorer countries, such as India and China, most of the people are hungry most of the time. Periodically, the countries represented in the agreement would review the potential need for commodities in surplus, and would explore ways of transforming it into an effective demand. They would suggest plans for desirable crop shifts, for maintaining reserves against drought years, and for developing new uses for surplus products. In proportion as this multipurpose effort succeeded, particularly in the raising of consumption levels, the need for net production adjustments would decline.

For example, surpluses could be channeled into consumption so as not to depress regular market prices. Some countries have done a good deal along this line, notably the United States. The procedure provides low-income people with purchasing power or its equivalent. Examples in the United States are the school lunch program, the former food stamp plan, and the former surplus milk program. Promotion of better diets and living standards by such means have come to be recognized as a national responsibility; it involves making foods available to the needy either at no cost or at special prices.

National action of this type could be supplemented with international action, in such a way as to facilitate the handling of surpluses. Supplies could be sent to deficit countries at less than world-market prices, with the proviso that they should be distributed to low-income groups exclusively. Thus the regular market demand should not suffer.

In all surplus situations the international distribution of supplies is necessarily very unequal; some countries have much more than they can use, while others have much less. Obviously, under such conditions, merely national action for the benefit of low-income groups makes only a minor dent into the surplus, and does not relieve want elsewhere. Through international arrangements it would be possible to lessen both the surplus and the need.

The arrangement would have to apportion the costs among the supplying countries and to provide safeguards against the appearance of the low-price surpluses in regular trade channels. It might cover some commodities not in world surplus but in national surplus, such as dried eggs and dried milk produced for war needs but not yet widely established in consumer habits. Handled internationally, surplus disposal to low-income groups should not cost so much as the losses that would otherwise result from spoilage, destruction, or the diversion of foods to nonfood uses.

Both distributing and receiving countries would benefit. The operation would be a kind of dumping, but not a harmful kind; it would not arouse foreign opposition since exporting and importing countries would carry it out together, in such a way as to interfere as little as possible with regular market prices or with private business enterprise. It would dispose of surpluses with advantage to the needy, and yet with no offsetting disadvantage to the producers. In fact through it the producers might largely escape the need for severe crop curtailment.

But action on the demand side might not suffice to get the surpluses reduced. Some curtailments in production would then be imperative. Proposals under commodity agreements would consider relative efficiency and comparative advantage; they would ask curtailments chiefly by the least efficient producers, who would be identified not only by countries but by areas within countries. These high-cost producers would need to be assisted in shifting into crops not in surplus. It would be up to the various governments to provide inducements and compensations, so that the burden of making the over-all readjustment would not fall disproportionately on any one group but would be equitably shared. Crop shifts would have preference over general crop curtailment, not only because the latter is difficult to achieve but because to the extent that it succeeds it reduces buying power. Hence it makes more curtailment necessary later. In bad surplus situations, however, some dependence on net curtailment may be necessary, if not intrinsically desirable. The commodity agreement would organize it on a world basis. Needless to say, adjustment in one country or even in several is not sufficient, since it could be offset by equal or greater expansion elsewhere.

Obviously, however, a high level of international trade cannot be achieved independently of other world objectives. It must be treated simply as an aspect of political and economic policy in general, which must consider

all types of domestic and foreign relationships. Ground work must be laid in international politics; more specifically, in arrangements to establish, guide, shape, and keep the peace. Necessarily world trade requires good prospects for lasting world peace. Even below this highest level, the world trade problem is largely a matter of diplomacy; for example, it involves monetary and financial understandings, which in turn involve the entire social and economic fabric. Lowering tariffs, adjusting prices, and handling world surpluses is impossible or useless if the nations lack a common monetary standard and a common monetary language. Under such conditions trade pacts have no meaning. Hence the farmer's interest in world trade goes beyond his crops and covers the entire range of necessary political, financial, and commercial policies. It returns, nevertheless, to his crops, the handling of which must mesh with the other phases of the world-trade problem. Farmers should give the problem some more thought; otherwise, the necessity of action may find them unprepared.